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IN THIS ISSUE

■ 30-Year DBFOM for Doyle Drive in San Francisco

The first project to move forward under California's new P3 law will be the replacement of Doyle Drive, after an analysis showed a DBFOM would create more value than a traditional procurement. Private financing could also dissolve concerns that available public funds might not cover any cost overruns, while freeing up $170 million in precious state cash for other projects.

Tolling the new road, called the Presidio Parkway, was vehemently opposed by leaders in Marin County, home of many commuters who use the 1.6-mile southern approach to the Golden Gate Bridge. Instead, the work is being funded by a mixture of federal, state and local money. Under the P3 scenario, the California Department of Transportation will be responsible for making availability payments for 30 years.

The California Department of Transportation (Caltrans) and the San Francisco County Transportation Authority (SFCTA)—the project co-sponsors—intend to issue a request for qualifications in February. An RFP cannot be released until the California Transportation Commission determines that the project meets the criteria set in SB 4 for public-private partnerships. If approval is granted in February or March, the request for proposals could be released in April, at the earliest. The preliminary timeline calls for selecting a winning bidder by August, and executing a final lease in December, before Gov. Arnold Schwarzenegger leaves office.

The state has hired Nossaman LLP for legal and Sperry Capital and KPMG as financial advisors for Caltrans's P3 program.

Work on the Doyle Drive replacement, which is to be called the Presidio Parkway, has been divided into two phases, each costing about $500 million. The project will replace Doyle Drive with a new six-lane freeway south of the Golden Gate Bridge. Phase I is already under construction. Under the P3 scenario, the team hired to design, build and finance Phase II would receive a milestone payment when the project is completed in 2013. The team will then operate and maintain the project for 30 years and receive annual availability payments.

The state's new P3 advisory commission heard details of the analysis on Jan. 21, and then recommended sending the project to the transportation commission. The draft report on delivery options was prepared by a joint venture of Arup and Parsons Brinckerhoff, under a contract to the SFCTA. Arup prepared the financial results and Parsons Brinckerhoff forecast operations and maintenance costs and provided input into construction costs.

"Our analysis shows that a P3 application is not only feasible, but presents a great opportunity to achieve best value for money, deliver the project on schedule, and lower life cycle-costs [more] than any of the alternatives," said José Luis Moscovich, executive director of the SFCTA.

A big part of the benefit seen for the DBFOM approach comes from assured preventative maintenance of the new road over the 30-year term of the concession. The existing Doyle Drive has suffered from inadequate maintenance due to Caltrans' budget woes.

Moscovich pointed out that phase I must be completely finished before contractors can get access to the site to begin phase II—whether or not the project is procured through a P3. If the P3 doesn't pan out, "we can still go back to a traditional delivery and not affect the schedule. And that's our fallback," he said.

Commission member Antonio Vives stressed that the private sector must be given very clear parameters for what will constitute a winning proposal, so that the presence of a "Plan B" doesn't discourage potential bidders.

"If they do not see a very strong possibility of winning, or if they see that your decision might be semi-arbitrary . . . they will either bid very high costs or they will not bid if they think there's a possibility you will go back" to a traditional procurement, said Vives, a veteran of the Inter-American Development Bank.

The estimated transaction costs in the Arup/PB report include $3 million for losing bidders, and bid and development costs up to financial close of $10 million for the winner.

Life-Cycle Benefits

The Arup/PB analysis calculated the net present value (NPV) of procuring the project through a DBFOM at $482 million, and at $626 million for a traditional design-bid-build. The result is a positive "value for money" of $144 million, or 23%. A design-build-finance procurement without O&M has a net present value of $632 million— "a wash," with the design-bid-build (DBB) option, according to Ignacio Barandiaran, chairman of the Arup/PB joint venture.

The NPV was calculated using many assumptions, including: securing a $300 million, low-interest federal TIFIA loan; a discount rate of 8.5%; the ability of the P3 team to achieve lower construction costs; a milestone payment of $150 million in 2013, and availability payments starting at $35 million the first year and rising to $41 million by the 30th year. For a DBB procurement, the analysis included an 80% chance that cost overruns could boost the base price of the project by 29%.

The estimated DBB cost for both phases is $955 million, which is the amount of funding that has been identified from 12 federal, state and local sources. However, the funding does not cover an additional $90 million that project planners would like to have for a risk contingency budget. According to the analysis, $879 million is currently committed.

Maintenance Budgets

"The total cost of achieving optimal levels of operations and maintenance is $24 million (in NPV terms) over the 75-year design life of the facility using DBFOM delivery compared to $30 million (in NPV terms) under DBB delivery," according to the Arup/PB analysis.

The P3 partner will be responsible for maintenance. However, it may choose to subcontract certain tasks to Caltrans, such as tunnel monitoring, and to the Golden Gate Highway and

Transportation District.

According to the consultants' report, Caltrans's maintenance budget is fiscally constrained. In consultation with Caltrans, it has therefore been assumed under a public sector provision of maintenance services that annual maintenance expenditures on the 1.6-mile highway would be capped at $468,000 per year in 2009 dollars, corresponding to twice the state's per lane-mile average for similar facilities.

Under DBFOM, a routine maintenance program is assumed to be fully funded at $685,000 per year (in 2009 $) to allow for required activities, including, most importantly, all preventive maintenance tasks necessary to maximize the life of roadway assets.

Liquidity Boost

By deferring construction payments through a P3, California would have an additional $170 million in its State Highway Operations and Protection Program. However, Caltrans would also be responsible for making the availability payments during the full term of the concession. Caltrans and its funding partners are working on arrangements to fund these payments, according to Dale Bonner, secretary of the Business, Transportation and Housing Agency.

A success on the Doyle Drive project would be an important win for P3 proponents in the state. The new law authorizes an unlimited number of projects through Dec. 31, 2016 (PWF 9/09, p. 13). Gov. Schwarzenegger (R) leaves office Jan. 3, and could be replaced by someone who is less enthusiastic about public-private partnerships.

■ Design-Build-Finance Option Heats Up

The Florida Department of Transportation (FDOT) in January executed its eighth contract to build a highway project with contractor financing, but without a long-term lease or concession agreement that includes operations and maintenance. The state is taking a national lead in these arrangements as a way to get projects completed years ahead of schedule. Typically payments are deferred or delayed for a few years, until public money becomes available.

A few other states are also turning to contractors for financing help. Two design-build-finance highway contracts totaling about $45 million have been awarded in Michigan, and North Carolina is seeking some private financing help on the Charlotte I-485 Outer Loop. In Los Angeles County, the Metro Gold Line Foothill Extension Construction Authority wants to use a DBF to deliver 11.4 miles of light rail, to be repaid as funding comes in from the *Measure R* sales tax for transportation.

"Ultimately, it's a way to get needed projects delivered sooner," says

Brian Papernik, a partner with law firm Nossaman LLP. “Particularly now . . . with the competition for construction, prices are low. This is a way to lock in those prices.”

Florida’s projects include six design-build-finance contracts and two for build-finance. The state also has two long-term DBFOM agreements for I-595 and the Port of Miami tunnel.

The Interstate 4 Crosstown Connector in Tampa, Fla., is targeted for completion in 2013. But under a $389.5-million build-finance contract executed Jan. 11, the joint venture of PCL Civil Constructors and Archer Western Contractors will receive most of the money between fiscal years 2013 and 2016. Nearly $87 million in federal stimulus money will be paid to the team as work is completed. The joint venture is financing the project with bank debt and equity.

Private financing does add to project costs, but competition is keeping prices down, says Leon Corbett, FDOT project finance manager.

“We received a bid [on the I-4 project] that we’re very happy with,” Corbett says. “They beat our estimate, and still managed to include the cost of financing.”

FDOT’s first DBF project was awarded in 2007. The $469-million project expanded 30 miles of I-75 in Lee and Collier Counties to six lanes; a new interchange is still under construction.

■ Permits Set for Jordan Bridge BOO

Construction on the privately financed Jordan Bridge in Chesapeake, Va., is scheduled to begin in the next few months, after the U.S. Coast Guard approved the final permit needed. Initial objections from the maritime community were resolved by requiring that the center span of the proposed bridge be wider than the original structure, which was dismantled by the private developer last year.

The additional clearance will add costs to the proposed two-lane, 5,371-ft-long concrete box girder bridge, but the project remains within the overall estimate of $100 million, said Linda Figg, President and Manager of FIGG Bridge Developers, in an e-mail.

The city of Chesapeake had no money to replace or repair the 80-year-old drawbridge, and shut it down in November 2008. The unsolicited offer to build a new bridge was enthusiastically and quickly accepted. In January 2009, the city conveyed the old bridge --and the right to toll a new one in perpetuity–to FIGG and investor group Britton Hill Partners (PWF 1/09, p. 7).

Since the bridge transfer was approved, FIGG and Britton Hill have declined to answer any questions about how the bridge will be financed. “All financing information remains confidential,” Figg said.

In October, FIGG Bridge advised the city that Britton Hill Partners wished to be released from the acquisition and development agreement. The Chesapeake City Council agreed to make FIGG Bridge the sole purchaser and responsible party. Though no longer an owner of the bridge, sources indicate that Britton Hill Partners is still involved with the project.

Linda Figg said a contractor is on board to build the bridge, and the name will be released when construction begins. Sources indicate that The Lane Construction Corp. of Cheshire, Conn., has been selected, but was not yet under contract.

The FIGG team had hoped to have the new bridge built by July 4, 2010. But the Coast Guard permitting process—though expedited—was not finished until December. Shipping interests and the U.S. Army Corps of Engineers objected to the new bridge because it would not be any higher than the vertical clearance on the old drawbridge (PWF 7-8/09, p. 1). However, other bridges on the Elizabeth River have even lower vertical clearances so a higher JOrdan bridge wouldn’t benefit navigation. The new bridge will have a horizontal clearance of 270 feet for ships, rather than 225.

The new bridge will have two 12-ft lanes, two 8-ft shoulders and a sidewalk for bikes and pedestrians. Tolls are anticipated to be $2 each way. The old bridge carried about 7,000 vehicles a day and tolls were 75 cents each way.

■ United Water DBO Win In E. Providence

A 10-year DBO venture of United Water and AECOM was selected in a 5-0 vote by the city council of East Providence this month as preferred bidder to upgrade the city’s regional wastewater treatment plant at its proposal price of $52.5 million.

The only other bidder was a venture of Veolia, CDM Inc., and Gilbane Building Co., based in Providence. The city is being advised by Malcolm Pirnie Inc. The estimate for public delivery and operation of the plant is $80 million.

If a contract is signed, it would be United Water's first DBO contract in over a decade. It is also pursuing DBO projects in Woonsocket, R.I., and Pima County, Ariz. The East Providence project is a full DBO led by United Water, a company source says.

The plant upgrade is part of a larger project that involves pumping stations and pipes to meet an April 2007 consent decree governing discharges into Narragansett Bay. The work is being funded with a $10-million loan at 2.5% subsidized by federal stimulus funds; $28 million in loans at 4.5% from the Rhode Island Clean Water Finance Agency; and market-rate municipal bonds. Minimal increases in sewer rates will be required, according to the city manager.

Correction: Acciona Agua

In the story on p. 8 of the December 2009 issue, PWF failed to mention that American Water is partnered with Acciona Agua for both the Tampa Bay desalination plant and the ongoing Hialeah, Fla., DBO desalination project bid. For both projects, American Water and Acciona Agua together contracted with Hatch Mott McDonald.

■ Virginia Midtown Tunnel Microscoped

Virginia is working with a partnership of Skanska and Macquarie to study the feasibility of the $2-billion Midtown Tunnel project and to prepare proposals for delivering it through a long-term P3 concession. The team will have the exclusive right to negotiate a comprehensive agreement, with an estimated timeline of achieving financial close in fall 2011.

The first phase, under an interim agreement signed Jan. 12, will analyze project risks and how to bring down the price of tolls to a more publicly acceptable rate.

"The financial feasibility is a done deal. It's a no-brainer," says Chris Guthkelch, authorized representative for the Elizabeth River Crossings LLC (ERC) partnership, and a bid director at Skanska. The question is, "What can you do to get to the lowest toll?"

The project includes adding a new two-lane tube to the Midtown Tunnel between Portsmouth and Norfolk, Va., extending the adjoining Martin Luther King Freeway, and upgrading both the existing Midtown and Downtown Tunnels underneath the Elizabeth River. The two tunnels are some of the worst bottlenecks in the severely congested Hampton Roads area. In 2009, average daily traffic was about 92,000 vehicles on the 4-lane Downtown Tunnel and 35,000 vehicles on the 2-lane Midtown Tunnel. The tunnels are not tolled now.

Skanska and its partners say the project can be delivered entirely with private money, but that would require a one-way toll of $2 to $3 for cars (in 2008 dollars) and three times that for trucks on both the new and existing tunnels during a 50-year lease. The new, elevated section of the MLK Freeway would also have a toll of 50 cents for cars and $1.50 for truck —though tunnel users would not pay the freeway toll as well.

The ERC team submitted the only response to a request for conceptual proposals in September 2008 (PWF 11/08, p. 15). Equity members Skanska Infrastructure Development and Macquarie Investment Holdings each hold 50% of the partnership. In a 2009 presentation on its conceptual plan, the ERC team anticipated the project could be financed with $600 million in senior debt, a $600-million low-interest federal TIFIA loan, and $525 million in equity.

The project would be designed and built by a joint venture of Skanska USA Civil, with a 45% stake; Kiewit Construction, 40%; and Weeks Marine, 15%.

Options being explored for bringing down toll rates include tolling the existing tunnels during construction, and looking at any changes that could be made to the scope or phasing of the project.

There is no public money currently allocated for construction. The state has requested a $300-million TIGER grant from the U.S. Department of Transportation, but requests nationwide for the special economic recovery grants far exceed the $1.5 billion available.

The Commonwealth Transportation Board would decide if any state funds can be put toward the project. The estimated revenue for the state's six-year funding plan has been cut by $4.6 billion since spring 2008.

Terms of the interim agreement:

- Both ERC and the Virginia Dept. of Transportation (VDOT) will cover their own costs during Phase 1; the ERC team estimates its costs at just under $1 million. The ERC team must finish its analysis by April 1, and VDOT has until July 1 to determine whether or not the project is feasible. VDOT has the option to purchase some of the ERC's work product.

- During Phase 2, VDOT will pay the ERC team up to $10 million of its external costs for preliminary engineering and other work. Phase 2 will be a maximum of 24 months.

- If the project is stopped during phase 2, before a comprehensive agreement is reached, VDOT will pay for additional work and expenses. The total amount to be paid will depend upon whether the project was terminated for convenience by VDOT, or as the result of default by VDOT or ERC, or by mutual agreement, but will not, in any case, exceed $29 million. The ERC team has estimated its internal and external costs during phase two at $33 million.

"We are sharing the risk, both in the first phase and the second phase," says Dusty Holcombe, VDOT assistant director of the Innovative Project Delivery Division. "We're going to try to be innovative and to look at different ideas."

Another potential P3 project in Virginia, building a new 55-mile section of U.S. 460 as a toll road, is on hold because it is not financially feasible without public money. Three teams submitted conceptual proposals in 2006. New Virginia Gov. Robert McDonnell (R) says getting U.S. 460 built is one of his highest transportation priorities. During his campaign, McDonnell suggested tolling I-85 at the North Carolina border to help pay for the project.

■ HSRail P3s Seeded in California, Florida

The two biggest chunks of federal money for high-speed rail will go to California and Florida, the two states furthest along in developing greenfield systems capable of traveling anywhere near 200 miles per hour. Both states intend to use P3s to help deliver the projects (PWF 12/09, p. 6).

California will receive $2.25 billion and Florida $1.25 billion. That's about half of what each state requested, but still more than 40% of the entire $8 billion pot approved in the economic stimulus bill last year. Much of the remaining $5.5 billion is going to projects aimed at improving the speed on existing tracks. The Midwest will share $2.6 billion; state governors envision a 110-mile network with Chicago as the hub. The entire Northeast will share $485 million. The U.S. Dept. of Transportation received requests totaling more than $55 billion.

President Obama traveled to Tampa, Fla., Jan. 28 to announce the grants and to tout his initiatives to create jobs.

"The money has been spread somewhat thin," and targets a lot of projects that aren't true high-speed rail, says Michael Finnegan, executive vice president for strategic development at U.S. Japan High Speed Rail. Much of that money will go to freight rail companies to upgrade their tracks, he says. Finnegan's company is marketing the Central Japan Railway and its N700-I bullet train in the U.S. and internationally.

The big question, Finnegan says, is how future federal appropriations will be awarded—and whether project sponsors have already been given a heads-ups on what to expect. Congress approved an additional $2.5 billion for high-speed rail in FY 2010. The Federal Railroad Administration will solicit applications for that money, but has not set a date.

Florida pegs the first phase of its high-speed rail network at $3.5 billion. It needs $2.6 billion to design and build an 84-mile line between Tampa and Orlando, so it is still more than $1 billion short. But with the right-of-way and most environmental work in hand, the project is the most "shovel-ready" greenfield option out there; completion is targeted for 2014. The state has considered using a concession to supply trains, operations and maintenance, but is evaluating different P3 possibilities after an industry forum in December.

Florida did not receive the $30 million it requested for developing phase 2 from Orlando-to-Miami.

California's 520-mile line from Anaheim to San Francisco is pegged at $42.6 billion in year-of-expenditure dollars, with completion targeted for 2020. The California High Speed Rail Authority is looking at issuing an RFQ this spring for private partners. About $10 billion-$12 billion in private funding will be sought, according to the latest business plan.

In the Midwest, Illinois will get $1.1 billion for the Chicago-to-St. Louis route, and Wisconsin will receive $810 million for the Milwaukee-to-Madison line.

Wisconsin has contracted with Spanish train maker Talgo to build two 14-set train systems in the state, with anticipation that the trains might become the vehicle-of-choice for the entire Midwest network.

■ Airport P3 Deals Stacked Up At FAA

The search for private airport partners is nearing take-off in New Orleans and San Juan, Puerto Rico. Officials intend to issue requests for qualifications soon—in February for New Orleans and before the end of March in San Juan. The Federal Aviation Administration (FAA) has accepted preliminary applications for both airports into its privatization pilot program.

With these two applications, the five slots available in the pilot program—created by Congress in 1996—may be close to filling up. The city of Chicago has a Feb. 1 deadline to submit a new timetable to the FAA for leasing Midway Airport, in order to hold onto the program's single slot for a large-hub airport. The city's earlier $2.5-billion deal with a Citi-led consortium fell through last year because the team could not secure financing (PWF 4/09, p. 8).

The single slot reserved for general aviation airports could go to Briscoe Field in Lawrenceville, Ga. The Gwinnett County Board of Commissioners voted Jan. 19 to submit an application to the FAA after being approached by a private equity firm with a plan to start commercial flights.

The airports in San Juan and New Orleans share some similarities: They are medium-sized hubs that ranked 41 and 49 respectively in 2008 passenger enplanements, both are tourist destinations, and both are at risk for hurricanes. More importantly, the airports have underutilized assets and upside potential that could be exploited by a private operator. But they also have differences.

San Juan: The Luis Muñoz Marín International Airport is one of eight projects selected for immediate P3 action, under a new Puerto Rican law and aggressive plan to attract private investment to the commonwealth. The drive to privatize is led by Gov. Luis Fortuna, who was elected to a four-year term in November 2008 (PWF 9/09, p.9).

The airport "is completely linked with our strategy of tourism and economic development," says David Alvarez, executive director of the Puerto Rico Public-Private Partnerships Authority. "We are fully committed to completing this."

The preliminary application states a lease of 50 to 75 years could generate an upfront payment of $375 million to $1 billion. But the private partner is also being sought to boost the number of passengers and airlines serving the airport, as well as to improve operating efficiencies and financial performance. The 1,600-acre site in Carolina, just east of San Juan, does not have a lot of room for further expansion of landside facilities. However, Alvarez says current facilities are underutilized.

The airport, which serves as a hub for the Caribbean, had 4.2 million passenger enplanements in 2009, a loss of nearly 17% since 2000. American Airlines announced major cutbacks in its San Juan hub operations in 2008. But the airline and its American Eagle partners still carried about 45% of passengers in FY 2009.

Under the pilot program, all proceeds from a lease must be used at the airport unless 65% of the air carriers agree to the privatization. The Puerto Rico Ports Authority is leading negotiations with the airlines.

Other P3 projects set for action in 2010 include concessions on three toll roads—PR-22, PR-52 and PR-66—natural gas conversion of five power plants, a water automatic metering and collections system, and a school modernization program.

Procurement advisors will be selected soon for both the airport and toll road projects. Macquarie helped advise Puerto Rico on setting up its P3 program, but that contract ended in December.

New Orleans: The Louis Armstrong International Airport is still feeling the impact of Hurricane Katrina in 2005, as well as the economic downturn, on travel to the area. After a steep drop in traffic, the number of passenger enplanements in 2009 climbed back up to about 4 million, still about 17% below pre-Katrina levels. Southwest is the airport's biggest carrier, with about 30% of passengers.

The 1,600-acre airport is located in Kenner, La., but is owned by the city of New Orleans. The city will get a new mayor and several new council members in May, following upcoming elections. Mayor Ray Nagin may not run again. The New Orleans Aviation Board, the city council and mayor must all approve a concession agreement with the winning bidder.

New Orleans-based TMG Consulting has been the airport's lead advisor for the privatization effort. An RFQ will also be issued shortly for a consultant to perform an independent valuation of the airport.

Gwinnett County, Ga.: The county has just begun studying whether to privatize its general aviation airport, but decided to submit a preliminary application to secure a spot in the pilot program. A consultant is to be selected in February to help prepare the application.

Propeller Investments LLC, a private equity firm, has proposed building a 10-gate terminal at Briscoe Field north of Atlanta, capable of handling commercial jets up to the size of a B737-900. The firm even created a website—www.whyprivatize-briscoe.com—to tout the idea.

Although larger airports may only be leased under the privatization program, general aviation airports may be leased or sold.

Chicago: Mayor Richard Daley (D) told reporters earlier in January that he's in no rush to revive the Midway deal, considering the drop in value for London's Gatwick Airport when that concession was resold following the economic downturn. Nevertheless, a city spokesman says the city will provide "updated information" to the FAA by February 1.

If the city doesn't meet the February 1 deadline for setting a new timetable, the FAA will need to know why before determining a response or course of action, according to an agency spokesperson. If Chicago does give up the slot for Midway, the city may reapply later as long as the slot is still open.

■ Las Vegas Monorail A Ridership Bust

On Jan. 13 the Las Vegas Monorail Company filed for bankruptcy under Chapter 11, less than six years after the project-financed transit system began, because ridership and revenue has never even come close to forecasts.

The non-profit company has sufficient revenue for operations and maintenance, but not for debt service on $650 million in tax-exempt revenue bonds issued to finance the 3.9-mile system connecting casinos along the Las Vegas Strip. The monorail company has been unable to pay its debts in full since January 2008.

This is bad news for Ambac Assurance Corp., which insured $450 million of those bonds. For reasons unrelated to Las Vegas, Ambac Financial Group says it may run out of liquidity in 2011 and may enter bankruptcy itself.

Curtis Myles, president and CEO of the monorail company (LVMC), blames the economic downturn and loss of tourism for the system's poor performance. Many would-be riders blame the monorail for not being user-friendly and even hard to find. The monorail runs behind the casinos, requiring long walks through the huge buildings to reach the stations. The non-discounted fare is $5. More people are riding double-decker buses that the public transportation commission sends up and down the strip for $3 a ride.

Monorail ridership has never come near projections since operations began in July 2004. The system had 6 million riders in 2009, less than a third of the number forecast by URS Greiner. Advertising at the stations and wrapped around the trains was projected to bring in revenue of $7.3 million in 2008 (PWF 7-8/2004, p. 3). Though advertising revenue did total about $2.4 million in 2007, that income fell to just $353,830 in 2009.

Total program revenues in 2009 were $27.4 million, with nearly $17 million of that going to Bombardier for running the system, which was built by Granite Construction. Debt service alone in 2009 was $34.4 million; that number will rise to $47.4 million in 2013 when payment on the third-tier bonds kicks in.

Since the monorail defaulted, all revenue was supposed to be deposited into an account controlled by Wells Fargo Bank, the trustee for the senior indenture. LVMC, Wells Fargo and Ambac have been sparring in court filings over separate bank accounts LVMC set up after the default, claiming that the trustee has wrongfully refused to pay legitimate expenses.

Both Ambac and Wells Fargo have also asked the bankruptcy court to dismiss the Chapter 11 bankruptcy filing. They argue that the monorail company must file under Chapter 9 instead, because it is a "municipality." The reasoning: the bonds were issued by the state of Nevada, and the governor has final say over the company's board of directors and budget. A Chapter 9 filing would give bondholders some "additional rights and protections." A hearing on the motion to dismiss is set for Feb. 17.

The court maneuverings have prompted concern that taxpayers might be asked to bail out the system or make good on its debts, even though the bonds clearly stated they were not an obligation of the state. The monorail company hopes to boost ridership by building an extension to McCarran International Airport and to find "additional sources of revenue and funding"—if it can get the debt restructured.

. . . Latin American News

■ OHL Checks Mexican Wastewater Award

OHL is mounting a legal challenge this month over an award by Mexico's National Water Commission (Conagua) of a US$732-million, 25-year design, build, finance, operate and maintain contract for the

Atotonilco waste water treatment project. The 525-mgd plant will be the country's largest.

An unsuccessful bidding consortium, led by Spain-based OHL and including Brazil's Norberto Odebrecht, claims to have bid US$32 million less that the winning group, led by Promotora del Desarrollo de America Latina, S.A. (IDEAL). OHL, with Mijares, Cortes y Fuentes as its legal adviser, cannot say how long the dispute will last. Mexico's arbitration law requires a US$78-million bond to halt the award.

Other investors in the winning consortium include Spain's Acciona Agua, S.A. and Atlalec, S.A., which is controlled by Japan's Mitsui. ICA's subsidiary Conoisa and U.S. based Green Gas Pioneer Crossing Energy, LLC are also involved.

The winning consortium reportedly will provide 20% equity and procure bank debt raising its contribution to around 52% of the total. Mexico's national infrastructure trust fund, Fonadin, will provide the rest. Construction is due to start this year and end in 2012.

■ Macquarie's Mexican Fund Takes Off

Following its mid-January launch, Macquarie Bank's Mexican infrastructure fund has raised about a third of its Pesos 15-billion (US$1.2 billion) target. Structured in equity-like Certificados de Capital de Desarrollo, it is said to be Mexico's first local currency infrastructure fund.

Macquarie itself invested Pesos 750 million (US$59 million) while seven local pension funds contributed Pesos 3.42 billion (US$270 million). Fonadin, the government's infrastructure fund, put in just over Pesos 1 billion (US$81 million), aiming to add twice that amount later. This is Fonadin's first investment in an outside fund.

The Macquarie fund is aimed at heavy infrastructure as well as social and communications assets. No more than 20% will be invested in an individual project. A rate of return on investment of 8% is forecast by Macquarie. If proceeds go above that threshold, they will be split 80% for investors and 20% for Macquarie. The fund is the bank's first in Latin America.

■ Chile Reforms Concessions Law

Chile passed legislation this month to attract PPP investors to its planned US$1.5-billion PPP program. The legislation aims to settle conflicts between the public works ministry and its concessionaires. The new law calls for an independent and specialized technical panel to settle disagreements over construction-cost overruns arising from state-imposed specification changes or allegations of contractor defaults. A new Concessions Council, with people drawn from engineering, architecture, economics, and science institutions, will be set up to advise the government on major infrastructure projects.

Another significant legal change concerns unpaid toll bills by highway users. In the future, car registrations will be withdrawn until toll payments are made. The relevant municipality will retain 50% of fines, rather than passing them on in full to the highway operator, as before. Chile's infrastructure builders' association, Copsa, however, says it views the reforms with "apprehension" because they increase costs and municipalities lack the resources to pursue violators.

Planned P3 projects include public buildings, hospitals, airports, railways, irrigation systems, and 1,000 km of highways.

■ Chile Moves Road Pipeline Forward

Chile's public works ministry this month selected preferred bidders for two road concessions, Ruta 66/Camino de la Fruta and the Autopista de Antofagasta, and set a late-March bid deadline for a highway between Vallenar and the the port city of La Serena.

With a combined value of just over US$1 billion, the bids for the three highways are based on varying criteria, including required state subsidies, contract duration, and total revenues.

For the US$360-million, 138-km Camino de la Fruta, Consorcio Vial Chile, S.A. was named preferred bidder, but details of its offer were unavailable at press time. Local firms Besalco, Belfi and Icafal own the consortium. The highway runs from Route 5, at Pelequén, to San Antonio, south of Santiago.

The two bidders for Camino de la Fruta were free to set required earnings up to US$275 million in a concession period capped at 35 years. Or they could specify a subsidy of up to US$385 million with a fixed 35-year concession.

The award for the roughly 75-km Autopista de Antofagasta, linking the seaports of Antofagasta and Mejillones, went to Skanska Inversora e Infraestructuras, S.A. No additional details were available at press time. Also bidding were: Iridium's Consorcio Viarias Chile, S.A.; Besalco's Consorcio Vial Chile; and Consorcio AZVI Chile Copasa.

The bids were based on the desired concession period from four to 35 years and no subsidy. Alternatively, the concession could be fixed at 35 years with a subsidy of up to US$220 million.

Bids for the roughly 200-km La Serena-Vallenar highway will be linked either to a required subsidy, up to US$290 million, or total earnings, capped at US$430 million. The concession will end when the revenue reaches a bid value, but in no later than 35 years.

■ Sacyr Closes Chile Road Deal

Spain's Sacyr y Vallehermoso, S.A. this month financially closed a 35-year contract to upgrade and extend a section of Route 5 between Vallenar and the port city of Caldera. Works includes improving the 180-km of highway to toll road grade and a new 33-km bypass.

Sacyr will provide Euro 45 million (US$64 million) equity on top of the debt of Euro 135 million (US$195 million) provided equally by the government's Banco del Estado de Chile and a private bank, CorpBanca. The 24-year debt has a fixed spread over the local inter-bank rate. Sacyr provided 25% of the equity.

■ Ferrovial Agrees To Sell Chilean Roads

Spain's highly leveraged Ferrovial, S.A. has agreed to sell 60% of its interests in five Chilean highway concessions to Colombian state-controlled electrical power company, Interconexion Electrica, S.A. (IESA). IESA also has a two-year option to buy Ferrovial's remaining interest. The roads are now operated by Ferrovial's local toll-road firm, Cintra Chile, S.A.

IESA is due to complete the US$301-million cash transaction in four months, conditional on regulatory approvals in Chile, Colombia and Spain. Ferrovial says it would obtain an after-tax payment of US$360.7 million for a 100% transfer.

According to Cintra Chile, the two companies have granted each other first refusal rights in bidding for Chilean toll road projects. The agreement requires each firm to invite the other to join it in any bids either one makes on toll road projects. The agreement excludes, however, the US$1-billion Vespucio Oriente toll tunnel, for which Cintra expects to bid with Skanska this year.

The five concessions operated by Cintra Chile total 907 km of Pan American Route 5 in five continuous stretches between Santiago and Río Bueno. Before the sale, Ferrovial/Cintra Chile control:

- 100% of the Autopista del Maipó concession, expiring in 2024
- 100% of Ruta del Bosque (2021)
- 100% of Ruta de la Araucania (2024)
- 67.6% of Ruta 5 (between Talca and Chillan) (2015)
- 75% of Ruta de los Rios (2023)

The deal is IESA's first in a diversification drive into toll roads. The company recently formed a concessions unit to bid for the 1,000-km Autopista de la Montaña toll road contract, in Colombia's Antioquía province.

Ferrovial is being advised by Santander Global Banking and BNP Paribas. IESA's advisors are Celfin Banking and Carola Diaz Perez-Cotapos. Cintra Chile reported US$212 million revenue in the first nine months of 2009. EBITDA was US$147 million.

■ Colombia Signs Ruta del Sol

Colombia's national concessions authority (INCO) this month signed concession agreements to raise to toll road standard the first two sections of the 1,000-km Ruta del Sol, which runs from near Bogotá to the coastal city of Santa Marta.

But INCO called for rebids by this January 28 for a contract covering the highway's remaining 394-km section, between San Roque and coastal city Santa Marta. INCO rejected the original bids for this section for legal and technical non-compliance.

The publicly funded contract for the 78-km first section, between Villeta, northeast of Bogotá, and El Koran, went to Vial Helios, S.A., a consortium of Conconcreto and Argentina's Iecsa, S.A. The US$932-million contract calls for turnkey construction in four years followed by three years of operation and maintenance.

The second section will be built under a design, build, finance, operate and maintenance contract. It covers the 528-km road from El Koran to Puerto Salgar. Sole bidder Futura Concesionaria Ruta del Sol won the 20-25 year contract worth US$1.1 billion.

The consortium includes Brazil's Norberto Odebrecht and local firms owned by CofiColombiana, S.A. Financial close is set for late this year after detailed design work is done. Colombia's US$500-million infrastructure fund, run by Ashmore Investment Management, is expected to provide subordinated debt.

. . . European News

■ Portugal Awards High Speed Rail

Portugal's high-speed rail authority (RAVE) has named the Elos-Ligaçoes de Alta Velocidade consortium as preferred bidder for a 40-year design, finance, build, operate and maintain contract covering a 167-km section of line from Caia, on the Spanish border, to Porcerâo, south of Lisbon. The contract is due for signing within two months; construction should start this year and end in 2013.

For the newly awarded contract, Elos will raise 44% of the required Euro 1.36-billion (US$2 billion) cost, with the rest coming mainly from the European Union and also the government. RAVE says the bid undercut its cost estimate by 40%.

The consortium's revenues will come from annual availability payments from RAVE averaging Euro 45 million (US$65 million), and Euro 16 million (US$23 million) for maintenance. Additionally, the consortium will receive user fees that include a basic sum plus a traffic-linked element. RAVE forecasts 50% of the investment being paid off by 2015, rising to 67% by 2020 and 100% in 2049.

Brisa, Autoestradas de Portugal and Soares da Costa Concessôes each owns 16.3% of Elos. Spain's ACS-Iridium Concesiones de Infraestructuras, with its construction unit Dragados, owns 15.2%. Five Portuguese firms and Brazil's Norberto Odebrecht share 42.4%. And the group's financial advisers, Banco Millennium BCP Investimento S.A. and Caixa Geral de Depositos, share the rest equally.

Meanwhile, RAVE has shortlisted three groups to submit BAFOs for the remaining 39 km into Lisbon, including a new Tagus River bridge. The groups are: Brisa/Soares de Costa/Iridium; Mota Engil/Vinci; and FCC/Impregilo.

■ London Underground Dispute Escalates

Tube Lines, the DBFM rebuilder of three of London Underground Ltd.'s (LUL) subway lines has unearthed evidence through freedom of information disclosures that undermines LUL's cost estimates for work on the contract's next phase. The contract's arbiter, Chris Bolt, has demanded that LUL clarify data secured by Tube Lines as he prepares to settle a major budget dispute between the two sides.

Tube Lines began work in 2003. Under terms of its contract with LUL, Bolt must set budgets by early this March for Tube Lines to cover work defined by LUL during the second 7.5-year phase, which begins this July. Tube Lines's 30-year contract covers the Jubilee, Northern and Piccadilly lines, which accounts for about one-third of London's network. The rest is being done by LUL directly, following the bankruptcy in 2008 of the DBFM consortium Metronet.

Data obtained by Tube Lines this month appears to show that its construction costs are roughly half those being incurred by LUL for its work on the Victoria Line. The new figures are at odds with those submitted by LUL to the arbiter in its submissions on the Tube Lines upcoming contract resset. However, at press time, Bolt's office had yet to establish whether the two sets of figures were measuring the same things.

Before the disclosure, Bolt last month set a preliminary budget for Tube Lines of £4.4 billion (US$7.1 billion) for the next 7.5-year phase. That was 24% lower than Tube Lines most recent bid and 10% above LUL's offer. Partly because of future uncertainty, Standard & Poor's has downgraded from stable to negative the outlook of three debt tranches raised by Tube Lines to finance work under the contract, signed in December 2002. Tube Lines is two-thirds owned by Ferrovial Group's U.K. service provider Amey, with Bechtel Civil controlling the balance.

Tube Lines and LUL have until next month to respond to Bolt's draft ruling. Before making his final decision, Bolt says he must have assurances from LUL that it will have the funds to cover the defined budget. Without that assurance, he will review options for modifying the timing and scope of work. Bolt will also consult on whether it might be more economical for LUL's owner, Transport for London (TfL), to raise additional financing rather than leaving it to Tube Lines.

In a separate development this month, an adjudicator rejected all claims by Tube Lines for construction delays it said were caused by TfL on its Jubilee and Northern Lines. Tubes Lines said it lost 10 months and £327 million (US$530 million) due to TfL's scope changes and lack of cooperation. The adjudicator ruled against Tube Lines and ordered it to pay TfL's costs.

■ Dutch Fund Buys Amey Concessions

Netherlands-based DIF Infrastructure II has acquired a 50% interest in the P3 portfolio of Amey Ventures Investments, a British unit of Ferrovial Group, Madrid. DIF also raised its U.K. exposure by acquiring 12.5% of the consortium responsible for the country's largest health sector concession, covering the Royal London and St. Bartholomew's hospitals.

Amey says the merger provides it with a strong financial partner for its existing and future P3 projects. The company has 10 P3s in construction or operation. They include buildings in the courts, defence, education and accommodation sectors and highways.

DIF acquired its interest in the London hospital from Commonwealth Bank of Australia (CBA). With a total financing cost of £1.7 billion (US$2.8 billion), the hospital is in the late stages of construction in east London, under a 42-year availability based deal.

The original consortium of Skanska (37.5%), Innisfree (37.5%), John Laing (12.5%), and CBA (12.5%) financially closed the contract just under four years ago. Innisfree later acquired Laing's share and now CBA has made its exit. Skanska retains its interest and is handling turnkey construction and facilities management.

Set up in 2005 with headquarters in the Netherlands, DIF now manages three funds. The first two, one focussing on PPPs and the other on renewable energy, are closed, having raised Euro 284 million (US$400 million). The third fund, DIF Infrastructure II, now has Euro 280 million (US$395 million) and is scheduled to close at Euro 500 million (US$705 million) this April.

Investors are mainly European pension funds and banks, including EIB, says Paul Nash, DIF's U.K. managing director. "We do both secondary and primary PFIs," he adds. The fund is currently equal partner with the U.K.-based contractor Kier in two accommodation PPP bids in England. It already has 13 U.K. concessions plus the London hospital and Amey's projects. It has under half that many deals in continental Europe.

■ Denmark Starts Down P3 Road

Denmark's first PPP highway deal has been awarded to Austrian-led Kliplev Motorway Group (KMG). KMG will finance construction of 26 km of the M51 untolled motorway and be repaid on the completion of work. The consortium must provide the government's Roads Directorate with performance guarantees for both construction and O & M phases.

KMG, owned by Strabag SE and its subsidiary Züblin Scandinavia A/S, won the contract in southern Denmark in late December. It is due to have the award ratified by the Danish parliament shortly. Construction, including over 20 bridges and 18 km of linking roads, is due to end in 2013.

The consortium will then operate the highway for 26 years, earning annual fees from the Roads Directorate. By 2015, the eastern section of the highway, near Sønderborg, is forecast to carry an annual average of 25,000 vehicles a day. The west end, linking with the E45 down to Germany, is expected to handle 9,000 vehicles.

KMG won the contract with a bid scoring 9.3 out of 10 in the directorate's evaluation, according to Strabag. In the financial component, accounting for 60% of the evaluation score, the consortium bid DKr 1.126 billion (US$213 million) to build the highway and bid its annual indexed operating fee of DKr 15.7 million (US$2.9 million), at 2009 prices.

To transfer risk from the public sector, KMG must provide a construction bond of Dkr. 100 million (US$19 million). This will be redeemed at the end of satisfactory construction. The consortium must then provide a second bond, or similar, of Dkr 300 million (US$57 million) to cover its operational performance. Half the value of the second guarantee can be redeemed after 15 years. The government judges that road resurfacing will be needed by then, posing a major operational risk.

The Ministry of Transport will now evaluate the whole procurement process before deciding whether to extend the approach to more highways, says the official. Deloitte is the government's financial adviser and locally based Kammeradvokaten advokatfirmaet Poul Schmith is its lawyer.

. . . More World News

■ Melbourne Highway DBFO Awarded

Southern Way consortium has won a A$759-million (US$701 million) contract to design, build, finance and operate the dual two-lane, 27-km-long Peninsula Link highway in Melbourne, Australia. The consortium is due to complete construction in about three years and operate the toll-free highway for 25 years. It will earn availability fees every three months from Victoria state government.

The state's Linking Melbourne Authority, formerly called Southern and Eastern Integrated Transport Authority, is due to reach financial close with Southern Way this February. The consortium is owned by the contractor Abigroup, its German owner Bilfinger Berger, and Royal Bank of Scotland. Abigroup will handle turnkey construction. The sole unsuccessful bidder was ConnectSouth (John Holland, Fulton Hogan, Macquarie Bank).

Located southeast of the city, the project will run between the EastLink Highway, in Carrum Downs, and the Mornington Peninsula Freeway, in Mount Martha. Including 35 bridges, the new highway will cut journey times from nearly an hour to under 20 minutes, according to the state government.

■ New Debt And Lanes For Australia's M5

Interlinks Roads, the concession company behind Sydney's M5 South West toll motorway successfully refinanced A$510 million (US$467 million) of non-recourse debt last month. At the same time, the concessionaire agreed with the Roads and Traffic Authority (RTA) to develop engineering and funding plans to widen the motorway by one lane each way.

Carrying about 95,000 vehicles a day, M5 South West is a four-lane motorway running along the south of Sydney, leading into the publicly operated M5 freeway to its east. RTA estimates the cost of upgrading the motorway and freeway at A$4.5 billion (US$4.1 billion).

Margins on the refinanced debt were 35 basis points better than those for loans of equal tenor arranged last year for the M2 and M1 roads by operator Transurban, which owns 50% of Interlinks Roads. Pension funds own the rest. Refinancing terms reflect "improved borrowing market conditions," according to Transurban. AMP Capital Investors, Australia and New Zealand Banking Group, Bank of Tokyo Mitsubishi, Calyon Australia, Commonwealth Bank and Westpac provided M5's new three-year debt.

■ MIG Restructures Its Road Concessions

Security holders in Australia-based Macquarie Infrastructure Group (MIG) on January 22 voted to divide its nine toll roads into two new companies listed on the Australian stock exchange. The split is aimed at correcting the perceived market underperformance of MIG's stock. The new companies, Intoll and Macquarie Atlas Roads, are due to start business this February.

Intoll will hold MIG's interests in those long-term assets that have strong, established track records with "prudent" gearing and hedging: Toronto's 407 ETR and Sydney's Westlink M7.

Macquarie Atlas Roads will handle the higher-risk assets: Chicago Skyway; Indiana Toll Road; California's South Bay Expressway; Virginia's Dulles Greenway; the U.K.'s M6 Toll; France's Autoroutes Paris Rhin Rhone (APRR); and Germany's Warnow Tunnel. It will also hold the Australian-based tolling company Transtoll Pty. Ltd.

■ Sydney Toll Tunnel Busts

Sydney, Australia's Lane Cove tunnel operator, Connector Motorways, went into receivership in late January. In 2003, when it financially closed, the twin 3.6-km-long tunnel project was hailed as the first toll road outside the U. S. to be funded with bonds rather than bank debt (PWF 12/03, p. 17). Accountant KordaMentha has taken control of Connector Motorways, which also operates tolled ramps onto Warringah Expressway at Falcon Street and Military Road. Lane Cove tunnel opened in 2007.

On financially closing the 33-year contract in late 2003, the concessionaire Lane Cove Tunnel Company included ABN AMRO (now part of Royal Bank of Scotland Group) as sole bond underwriter and the largest of several investors. The concessionaire raised A$1.14 billion (US$1 billion) of bonds, rated AAA by Standard & Poor's. The rating reflected a guarantee by MBIA Insurance which was unconditional and irrevocable as long as scheduled payments were made.

■ La Réunion Railroad On Track

Officials on the Indian Ocean island of La Réunion are working towards achieving financial close by this June on the 38-year contract to design, build, finance and operate the estimated Euro 1.7-billion (US$2.5 billion) Tram-Train rail. The contract has been signed and includes provision of rolling stock.

The regional council of La Réunion, an overseas department of France, named the Tram-Tiss consortium last summer as preferred bidder to provide the 42-km line running eastwards along the north coast from Saint Paul, through the capital of Saint Denis, to Sainte Marie. With construction due to begin this year, the few kilometers from Saint Denis to Sainte Marie and its nearby airport, is scheduled to start serving the island of 900,000 people in 2013. The full line's completion is planned for 2016.

Tram-Tiss includes units of Paris-based Bouygues group with Demathieu & Bard, Veolia Transport, Axa, Méridiam Infrastructure, Crédit Agricole de la Réunion, Société Générale, BFCOI, Bombardier Transport and RES Developpement.

The consortium will inject about 10% of the investment, with debt accounting for the rest, says Meridiam's Chief Executive, Thierry Déau. The European Investment Bank has committed up Euro 400 million (US$576 million). Funding will be underwritten by the French government, according to an official at AXA.

Including 25 stations, Tram-Train will be built in rugged terrain around the northeast corner of the island, which is some 700 km east of Madagascar. Consequently, the line will include over 3 km of tunnels and 10 large structures, including cable-stayed bridges.

La Réunion launched the railroad's procurement in July 2007, receiving initial offers late the following year. Runner up to the successful team was the Run Ram consortium, including Vinci companies

Case Study:

Baltimore's Seagirt Port P3 Financed With Tax-Exempt Debt

$259 million of tax-exempt revenue bonds were issued in mid-January on behalf of the Maryland Ports Authority (MPA) to fund the modernization of Baltimore's Seagirt port through a 50-year lease and concession. The public-private partnership includes $75 million in equity from an investment fund managed by Highstar Capital, a unit of AIG.

The private equity was committed at financial close. It monetizes the future revenue growth Highstar believes it will create by reconfiguring the state's port operations, adding capacity and improving efficiency, says Stephen Goldsmith, former Mayor of Indianapolis, who advised Highstar as a consultant to McKenna Long & Aldridge LLP. "It's a great alignment of interests," he says.

Also, existing labor agreements will be honored, which won the support of the Longshoreman's Union for the deal.

The capital projects and long-term management of the public facilities will be done under an agreement with Highstar's project company, Ports America Cheseapeake Inc. (PAC), all of whose revenue is pledged to pay debt service on both series of bonds.

Tax-Exempt Debt

Two series of long-term bonds totalling $259 million were rated Baa3 investment-grade by Moody's on Dec. 17 and sold on January 12. The first series of governmental purpose bonds totaled $170 million. Of that, $140 million was used immediately by MPA to purchase the port from the state transportation authority, which has dedicated all of that money to build "shovel-ready" projects along the I-95 corridor and the Cheseapeake Bay Bridge.

The second series of bonds, $89 million, will help fund the purchase of four super post-Panamax cranes and the design and construction of a new 50-ft-deep berth by McLean Contracting Co. That work is expected to start this summer and must be done by July 1, 2014 to coincide with completion of an expansion of the Panama Canal and the larger ships it will bring. The existing port and improvements will be owned by MPA, which allows the bonds to be tax-exempt.

About $40 million of Highstar's equity commitment will be used to fund the wharf and berth. Most of the balance will be used to fund reserve accounts and a $12.5-million startup operations account. Equity has no right of ownership to the improvements.

The longest bonds in both series—25 years—were priced to yield 5.85%. The conduit financing was underwritten by Goldman Sachs, Citi and BMO Capital Markets, advised by Cleary Gottlieb. The issue was oversubscribed six times, according to Laurene B. Mahon, principal financial advisor to MPA, in conjunction with Public Financial Management. Also advising the authority on its first bond financing were John A. Martin, AECOM and law firm K&L Gates.

MPA executive director James J. White headed the Port of Baltimore from 1999 through 2005. He left for two years to become Senior Vice President and Chief Operating Officer of New Jersey-based Ceres Terminals Inc., and rejoined MPA in 2007. Kathy Broadwater, deputy executive director, also has private sector experience, at Booz Allen Hamilton.

Moody's Rating

Only one rating agency, Moody's, was asked to rate the bonds. Its review was exhaustive. "Moody's looked at this deal five different ways," says a Highstar spokesman.

"The rating agencies are under the gun," says Mahon. Of particular concern in PPPs, she says, are related-party transactions. Moody's "wanted a truly independent director to be a voting member of the board [of the project company]" to represent bondholders in awarding contracts, executive compensation and other matters.

Given that the worst-case revenue estimates have been realized or exceeded on a number of revenue-risk financings, Moody's has tightened its review of traffic models, she says.

For Baltimore's Seagirt port, which has been operating for 88 years—since 1990 by Ports America—the rating agency's review resulted in a 20% reduction in Highstar's original revenue estimate. The debt service coverage starts at over 2.0 and improves steadily over time. That ratio is based on Highstar's final revenue projections, which conservatively assume that no additional containers will pass through the port as a result of the expansion.

(Most of Seagirt's containerized cargo comes from the Baltimore-Washington area, one of the wealthiest consumption markets in the U.S. Seagirt revenues last year were still down about 10% from 2008, to about $52 million. Other ports fared far worse—container shipments at Portsmouth, Va were down 16% last year and shipments at Long Beach, Calif., were down 28%. Nearly all of the ports bought by equity funds from 2006-2008 are being carried on their books at roughly half their purchase price, or less.)

Public Benefits

"This public-private partnership is about three things: jobs, jobs, and more jobs," said Governor Martin O'Malley (D). "These challenging economic times call for new ways of doing business. We welcome an internationally respected partner in the maritime field for this unique long-term joint venture. With this agreement, we are able to secure the Port's long-term future with a 50-foot berth, apply an immediate influx of capital for system preservation of roads, tunnels, and bridges, and provide an extended revenue stream to the State."

Specifically, the concession will lead to 2,700 permanent jobs and 3,000 temporary jobs, he predicts. Many of the jobs are with high-paying union labor, which assures the spread of economic benefits. The agreement also will bring in more than $1.3 billion to the state over the next 50 years, including $15.7 million in new taxes per year.

The agreement calls for PAC to pay MPA $3.2 million per year, which becomes indexed to CPI after the fifth year of operations. (PAC paid MPA $2.2 million in outsourcing royalties last year.) MPA also will get $15 per lift once PAC reaches 500,000 lifts per year. Under the base-case financial model, revenue-sharing would begin in year 16, at the same time as a noncompete agreement signed by MPA ends.

Existing labor contracts at the port will remain in force, though Highstar will be allowed to consolidate port operations and move Seagirt's RO-RO operations to MPA's nearby Dundalk facility. MPA has first right of refusal to buy out Highstar if, as is likely, it elects to sell its concession after revenues ramp up.

Highstar/PAC was the sole bidder. A second team, Ceres Terminals Inc., with backing from Alinda Capital Partners, dropped out of the competition days before final offers were due. Competitive negotiations with the authority were conducted over seven months to finalize the lease and concession agreement with Highstar.

Private Control

Commercial close was reached last September. According to a press release from Highstar on Nov. 20, 2009, in addition to full control over daily operations of Seagirt, PAC

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receives:

• A cap on rent increases of at most 3.5% a year starting after the fifth year;

• All net revenues;

• The right to move and consolidate all current container business from MPA's Dundalk terminal to Seagirt (both of which have been outsourced to PAC for years);

• Control over the timing and the nature of system preservation costs as long as standards are met;

• Control over the timing of investments in new technology.

All of the capital cost savings from the tax-exempt debt financing structure—quantified at $20 million—went to the public sponsors. But Highstar also received substantial benefit. As a backstop, Highstar was pursuing a bank financing before the favorable rating from Moody's allowed issuance of the tax-exempt bonds. The long-dated public debt used to fund the PPP eliminates the refinancing risk that the private side would have assumed with a bank deal, says the Highstar spokesman.

The success of the Seagirt financing resulted from addressing financial structuring at the start of the talks and from having flexible public and private partners, says Mahon. "Everyone's approach is so different now," she says. "Everyone needs more flexibility. If someone decides to dig in their heels, there won't be a deal." ■

Virginia Port P3 Plan Awaits Political Directions

Hoping for a big upfront payment, Virginia's new governor is considering a lease of the state's ports to one of three groups of investors that have made unsolicited offers for a long-term concession under the state's Public-Private Transportation Act (PPTA).

The three groups have made preliminary offers of cash payments to the state ranging from $250 million for a 30-year "operating partnership" to up to $700 million for a 60-year concession. The deal would involve acquisition of Virginia International Terminals Inc. (VIT), a private nonprofit subsidiary of the Virginia Port Authority (VPA). The tax-exempt entity manages state-owned ports at Norfolk, Portsmouth, Newport News and Port Royal, including union contracts.

Virginia Gov. Bob McDonnell (R) says he will select a panel soon to review the three proposals, which typically takes 12 to 18 months under the PPTA. "Ultimately the governor-elect's final decision for the port will be contingent on what will generate the most revenue to help build our transportation and trade infrastructure, and what will be the most beneficial for the Port, Hampton Roads and all of Virginia," Taylor Thornley, a McDonnell spokeswoman, said recently.

Key Virginia legislators and port unions want a say in any deal, which they believe is worth far more than any of the preliminary offers made. The PPTA doesn't provide for legislative approval but a legislative subcommittee report due soon is expected to raise questions about any proposed public-private partnership.

The state's powerful port operator, meanwhile, has been negotiating since early 2008 to take over all or part of the huge terminal operations that Maersk's APM Terminals opened in 2007 at Portsmouth, just before the international shipping business crashed. Container volume at Portsmouth fell 16% last year from 2008, to 1.75 million units.

The state's independent port management company, VIT, has locked up most of the existing traffic at Portsmouth and long-term revenue projections from new business have flattened. So the Virginia Port Authority believes it can strike a favorable deal on what it says will be a 20-year lease of the private terminal, in which APM has invested $500 million. A key player in the discussions is John Milliken, a partner at Washington, D.C. law firm Venable LLP, who chairs the port authority's board.

One solution would be for VPA to take over APM and include it in a VIT concession with private investors.

That gets complicated. In addition to confusion over the size of the state's assets to be concessioned, the different duration of the proposed leases could scuttle the private offers, says one of the unsolicited bidders. The three firms at the table are CenterPoint Properties, owned by California's Public Employees Retirement System; Carrix Inc., with Goldman Sachs; and The Carlyle Group.

It's too early in Gov. McDonnell's administration to predict an outcome. "It could be an interesting deal or it could be a wash," says one of the bidders. ■

Transportation Policy Review

by Robert W. Poole, Jr.

The National Infrastructure Bank, Revisited

In recent weeks, the idea of a National Infrastructure Bank (NIB) has gained new momentum. It's been endorsed in a Wall Street Journal op-ed by the president's Economic Recovery Advisory Board. The group Building America's Future assembled several dozen people for a January 20th news conference to endorse the idea (though not a specific proposal). Taking part were prominent elected officials, transportation groups (AASHTO, APTA, T4America), think tanks (Bipartisan Policy Center, Brookings, Center for National Policy, Reason Foundation), construction interests (ARTBA, US Steelworkers, ACEC), and others.

Eighteen months ago in this space, I wrote a rather skeptical assessment of the NIB idea, as incorporated in what seemed to be poorly thought out legislation. With more-detailed proposals emerging since then, it's time for another look.

Proponents of an NIB present it as a solution to two major problems: insufficient investment in transportation (and other) infrastructure and poorly targeted (politicized) infrastructure spending. It's plausible that some version of an NIB could help to address both problems.

Today, America pays for most public sector transportation infrastructure (e.g., highways) out of current cash flow. Shifting to a model that finances that investment would be a way to do a large one-time catch-up, even if there were no significant increase in the ongoing cash flow. But if the investment were in major projects that generated net new revenues (e.g., from tolls or other new user fees), then total investment would increase, in addition to being front-loaded.

Second, if the NIB were set up as a genuine bank, operated on commercial principles, it would fund only projects that met pretty rigorous investment criteria, including well-documented revenues that would repay the bank's investment. That way the NIB would be a going concern, like state revolving loan funds for infrastructure. As a national entity, the bank should be chartered to concentrate on projects too large to be readily funded by a state DOT, projects involving multi-state corridors, etc. So this whole set of factors would target the investments to projects with high ratios of benefits to costs.

How would such an entity be structured? One interesting model was proposed in October 2008 by Everett Ehrlich and Felix Rohatyn. In their version, most of the existing federal infrastructure money (they estimate $60 billion/year) would go to the NIB instead of being parceled out as airport, highway, transit, and waterway grants, and would be used only for high-priority projects of national significance that come with their own revenue sources—in most cases new user fees. With an expert board and professional staff, this NIB would prioritize all proposed projects and fund the most viable ones. By requiring at least 3:1 leverage, the $60 billion/year could capitalize close to $250 billion per year, they state.

You may well share my skepticism that Congress could ever be persuaded to turn over control of $60 billion per year in current user-tax revenues to an NIB that it didn't control—yet independence from political control in project selection is the essence of all serious NIB proposals (at least those that originate outside the halls of Congress). On the other hand, a less radical version would leave the existing funding and programs alone, focusing the NIB on large projects of national significance that are currently going unfunded. Fluor's Bob Prieto proposed this in the Autumn 2009 issue of Tollways. That NIB would issue its own bonds, based on its future stream of loan repayments from commercially viable revenue-generating projects developed by state agencies and the private sector.

Yet even that less ambitious proposal is a far cry from some of what has been proposed in Congress under the name "National Infrastructure Bank." Rather than concentrating on infrastructure that can repay loans out of new user-fee revenue streams, some bills have included non-revenue-producers such as schools, public housing, and mass transit systems in their list of eligible project categories. And instead of only offering loans and credit enhancement (like TIFIA), the 2008 Dodd/Hagel bill would have included direct grants and general-obligation bonds among its financing tools. And rather than a board made up of recognized experts, most legislative proposals have called for the usual boards of political appointees. One House proposal had the NIB's existence limited to 15 years, hardly enough time for repaying long-term infrastructure loans (and essentially a confession that it would be primarily a vehicle for handing out money, not an ongoing Rohatyn-type financial institution).

So what are those of us to do, who are genuinely concerned about both increasing the level of infrastructure investment and targeting it toward truly value-added projects? I have two suggestions.

First, we can support proposals for a real NIB, but that support should be conditional on this bank being set up as a truly independent entity, with an expert board and professional staff, and operating with complete autonomy from Congress in terms of project selection. The bank must be limited to helping finance projects above a high dollar threshold that are truly of national importance and that produce a credible financing plan, based principally on net new user-fee revenues. NIB credit support should provide no more than a set fraction of project budgets (such as one-third), to ensure its funding is leveraged. Note that such an NIB would be inherently multi-modal (or even multi-sectoral—e.g., electricity, water, broadband, as well as transportation) without violating the user-pays principle, since each individual project would be user-funded (but with federal financing help).

Second, however, we should be ready with Plan B when the above proves incapable of generating sufficient support in Congress. The fallback position should be a careful expansion and generalization of current federal credit support for transportation infrastructure, in the form of PABs, TIFIA, and possibly other forms of credit assistance. A good outline for this was provided by the Infrastructure Financing Commission, on pp. 184-187 of its final report, Paying Our Way: A New Framework for Transportation Finance.

In other words, a real National Infrastructure Bank would be nice if we could get it, but is highly unlikely, in my view. So we need to be ready to kill a so-called NIB that is a disguised vehicle for continued politicized funding, and to support modest but useful alternatives that build on the success of state revolving funds, TIFIA and PABs.

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Global News Briefs

January 2010

AIRPORTS

French airports: VINCI Airports last month raised from 50% to 99% its interest in France's Grenoble-Isère, Chambéry-Savoie, Clermont Ferrand-Auvergne and Quimper-Cornouaille airports, which together handled 1.2 million passengers last year. Also, VINCI this month acquired 49% in an operating contract for Rennes-Saint Jacques and Dinard-Pleurtuit airports lasting nearly 15 years.

BUILDINGS

French sport facility: The consortium Vélopolis of Bouygues companies and Méridiam investment fund has secured a 30-year DBFO contract from France's Saint-Quentin-en-Yvelines urban authority to develop a Euro 74-million (US$105 million) sports facility near Versailles, east of Paris.

U.K. schools: The U.K. Darwen and Bolton Borough Council, working with Bolton Metropolitan Borough, have financially closed a £450 million (US$738 million) PPP contract with Balfour Beatty PLC. to build, refurbish and operate 24 school buildings in phases. The contractor will initially invest £2.6 million (US$4.3 million) in the 25-year deal, with the possibility of raising its equity to £20 million (US$33 million).

ROADS

Spanish toll roads: Spain's Abertis will invest Euro 100 million (US$140 million) this year improving toll roads in Catalonia. The regional government has undertaken to make up toll revenue shortfalls below agreed levels. The deal is modelled on a Euro 500-million (US$700 million) Abertis contract with the Spanish government to add third lanes to sections of the 123-km-long AP-7 highway this year.

Vietnam expressway:The Dau Giay-Phan Thiet expressway into Hanoi from the east is reportedly to be Vietnam's first highway pilot PPP. Hanoi-based Bitexco Group will invest about 10% of the estimated US$775 million project, say local reports. The World Bank confirms it will prepare a loan program to help Vietnam develop PPPs through pilot schemes. The bank began working with Vietnamese ministries two years ago to develop PPP procurement to help plug a large infrastructure funding gap.

WATER

Chile desal: Chile has conditionally approved construction of the first, US$140-million, 400-litre-per-sec phase of a seawater desalting plant at Punta Totoralillo to supply the Cerro Negro Norte iron ore mine.

Mexico wastewater: An equal joint venture of ICA and Japan's Mitsui has won a 20-year concession from Jalisco state to build and operate the US$170 million Agua Prieta treatment plant to serve 3.4 million residents of Atemajac. Funding includes 20% equity, 30% bank debt, and 50% state backing.

COUNTRY/COMPANY NEWS

Abertis/Brisa road operators: Spain's Abertis would agree to a share swap with Portugal's Brisa towards creating a joint European toll road operator. Abertis holds 14.6% of Brisa.

ACS acquisitions: Spain's ACS has paid US$245.7 million to acquire U.S. contractors Pulice Construction, Arizona, and John P. Picone, New York. Their combined 2008 revenues were US$373.7 million. ACS's U.S. revenue last year, excluding the two acquisitions, was US$1.1 billion.

Central America funds: The Central America Mezzanine Infrastructure Fund has closed with US$150 million to finance infrastructure in Central America, Colombia and the Dominican Republic. Investors include the Inter-American Development Bank and other international institutions.

Mexico bonds: Mexico's Chihuahua state has sold Pesos 1.3 billion (US$1.9 billion) of 13-year bonds, backed by state road tolls, to finance infrastructure projects. The bonds pay 290 bp above Mexico's inter-bank rate.

U.K recession: Most PPPs remained relatively robust in the recession but the credit of several U. K. healthcare and road deals was impaired, according to Standard & Poor's. The agency, in the second half of 2009, downgraded three U. K. hospital deals: Catalyst Healthcare (Manchester), Catalyst Healthcare (Romford), and Coventry & Rugby Hospital Co.

Also downgraded were the highway companies Road Management Consolidated, CountyRoute (A130) and Autolink Concessionaires (M6). "The future deal pipeline remains robust" but government elections, probably this May, may lead to a review, say analysts.

U.S. & Canadian Transportation Projects Scorecard

Contract Amount in nominal $ ($ millions)	Project Name	Owner	Private Risk	Notice to Proceed	Sponsors (DB component)
3,850	**Indiana Toll Road, IN**	Indiana Finance Authority	75-yr lease	6/06	Cintra Concessions/Macquarie
2,600	**ETR 407, Toronto, Ont.**	Ontario Ministry of Trans.	99-yr lease	5/99	Cintra Concessions/Macquarie
2,460	**Port Mann Bridge, BC**	BC. Ministry of Transportation	DB	2/09	Kiewit/Flatiron
1,998	**I-495 HOT Lanes, VA**	Virginia DOT	DBFO	7/08	Transurban/Fluor ($1.4bn Fluor/Lane)
1,830	**Chicago Skyway, IL**	City of Chicago	99-yr lease	1/05	Cintra Concessions/Macquarie
1,814	**I-595 Managed Lanes, FL**	Florida DOT	DBFO	2/09	ACS Infrast. ($1.2bn Dragados/EarthTech)
1,674	**Hudson-Bergen Lt. Rail , NJ**	NJ Transit	DB/Equip+O&M	10/96	Wash. Group/Itochu ($1.15bn Perini/Slattery)
1,650	**Canada Line, Vancouver, BC**	Gr. Vancouver Transit Auth,	DBFO	8/05	SNC Lavalin/Serco ($1.2bn SNC Lavalin)
1,430	**A-30, Montreal, Quebec**	Ministry of Transport	DBFO	9/08	Acciona/Iridium (Dragados/SICE/Arup)
1,376	**I-15 Reconstruction, UT**	Utah DOT	DB	3/97	Kiewit/Granite/Washington Group
1,369	**SH 130 Seg. 1-4, TX**	Texas DOT	DB	7/02	Fluor/Balfour Beatty/DMJM + Harris
1,358	**SH 130 Segments 5-6, TX**	Texas DOT	DBFO	3/08	Cintra/Zachy
1,340	**Edmonton Orbital (NW), AB**	Alberta Transportation	DBFO	7/08	Bilfinger Berger (Flatiron/Parsons/Graham)
1,186	**T-REX Road/Rail Exp., CO**	Colo. DOT/RTD	DB	5/01	Kiewit/Parsons Trans. Group
980	**Jamaica-JFK Airtrain, NY**	Port Auth. NY/NJ	DB/Equip+O&M	9/99	Skanska/Bombardier ($980m Slattery/Perini)
914	**Port of Miami Tunnel, FL**	Florida DOT	DBFO	10/09	Bouygues ($607m Bouygues/Jacobs)
814	**Golden Ears Bridge, BC**	TransLink/Partnerships BC	DBFO	3/06	Bilfinger BOT ($746m Bilfinger/CH2M Hill)
803	**Foothill Eastern Toll Road, CA**	Trans. Corridor Agencies	DB	6/95	Flatiron/Wayss & Freitag/Sukut/Obayashi
790	**San Joaquin Hills Toll Rd., CA**	Trans. Corridor Agencies	DB	9/91	Kiewit/Granite
773	**SR 125 So. + Connectors, CA**	San Diego Expressway L.P.	DBFO	5/03	Macquarie ($653m Washington/Fluor)
730	**Confederation Bridge, PEI**	Public Works Canada	DBOM	10/93	Vinci/BPC Marine/Ballast Nedam/SCI
712	**Alameda Corridor, CA**	Alameda Corridor Trans. Auth.	DB	11/98	Tutor-Saliba/O&G Indus/Pars. Grp + HNTB
689	**JFK Terminal 4, NY**	Port Auth. NY/NJ	DBFO	5/97	Schiphol/LCOR ($689m Fluor/Morse Diesel)
645	**Foothill South Toll Road, CA**	Trans. Corridor Agencies	DB	11/98	Flatiron/HBG/Sukut/Fluor Daniel
615	**Tacoma Narrows Bridge, WA**	Washington State DOT	DB	11/02	Bechtel/Kiewit
611	**Pocahontas Parkway Lease, VA**	Virginia DOT	99-yr lease	6/06	Transurban ($45m Fluor/WGI)
603	**Northwest Parkway Lease, CO**	Norhwest Parkway Authority	99-yr lease	5/07	BRISA/CCR
600	**Eastside Light Rail, CA**	Los Angeles County MTA	DB	7/04	Washington Group/Obayashi/Shimmick
597	**Sea-to-Sky Highway, BC**	BC MInistry of Transportation	DBFO	9/05	Macquarie ($354m Kiewit/Miller/Capilano)
555	**Northeast Stoney Trai**l, **AB**	Province of Alberta	DBFO	2/07	Bilfinger ($345m Flatiron/Graham/Parsons)
541	**Cooper River Bridg**e, **SC**	SC DOT	DB	7/01	Flatiron/Skanska + Parsons Brinckerhoff
530	**BART SF. Airport Ext., CA**	Bay Area Rapid Transit Dist.	DB	5/98	Tutor-Saliba/Slattery + HNTB
508	**Trenton River Light Rail, NJ**	NJ Transit	DB/Equip+O&M	6/99	Bechtel/Conti/Foster/Bombardier
500	**Trans Canada Highway, NB**	NB Trans Ministry	DBOM	11/98	Dragados-FCC/Vinci/Miller Paving
464	**Intercounty Connector, MD**	Maryland DOT	DB	6/07	Granite/Corman/GA & FC Waggoner
431	**IROX I-75, FL**	Florida DOT	DBF	6/07	Anderson Columbia/Ajax Paving
420	**I-64 St. Louis, MO**	Missouri DOT	DB	12/06	Granite Construction
414	**Highway 161, TX**	No. Texas Tollway Auth.	DB	8/09	Fluor/Balfour Beatty + AECOM
395	**Edmonton Orbital SE, AB**	Alberta Min. of Trans.	DBOM	1/05	Macquarie/PCL/LaFarge
390	**SR 22 Improvements, CA**	Orange Cty CA Trans. Auth.	DB	9/04	Granite/C.C. Myers/Steve P. Rados Inc.
386	**Conway Bypass Highway, SC**	SC DOT	DB	3/98	Fluor Daniel
385	**Route 3 North, MA**	Mass. Highways	DBF/Maint.	8/00	Modern Continental/Roy Jorgenson
350	**Dulles Greenway Toll Road, VA**	TRIP II	DBFO	9/93	TRIP II ($150m Brown & Root)
348	**John James Audubon Br., LA**	LA DOTD	DB	5/06	Flatiron/Granite/Parsons
343	**Las Vegas Monorail, NV**	L.V. Monorail LLC	DB/Equip+O&M	10/00	Bombardier/Granite
328	**281 North Toll, TX**	Alamo Reg. Mobility Auth.	DB	5/08	Fluor/Balfour Beatty
324	**E-470 Beltway, Seg. 2&3, CO**	E-470 Public Hway Auth.	DB	8/95	Washington Group Intl/Fluor Daniel

U.S. & Canadian Transportation Projects Scorecard

Contract Amount in nominal $ ($ millions)	Project Name	Owner	Private Risk	Notice to Proceed	Sponsor Constructors (DB component)
295	**US 550 (was SR 44), NM**	New Mex. SH&TD	D/CM/Warranty	9/98	Koch Materials ($295m CH2M Hill/Flatiron)
291	**Hiawatha Light Rail, MN**	Minn. DOT	DB	9/00	Granite/C.S. McCrossan
267	**Gold Line Light Rail, CA**	LA-Pasadena Blue Line Const.	DB	4/00	Kiewit/Washington Group
243	**I-10 Bridges Escambia Bay, FL**	Florida DOT	DB	4/05	Tidewater Skanska
238	**TH 212, MN**	Minnesota DOT	DB	8/05	Fluor/Edward Kraemer/Ames
236	**Rt. 288, VA**	Virginia DOT	DB/Warranty	12/00	Koch/APAC/CH2M Hill
234	**St. Anthony Falls Bridge, MN**	MinnDOT	DB	11/07	Flatiron/Manson + FIGG
233	**E-470 Beltway, Seg. 4, CO**	E-470 Public Hway Auth.	DB	1/00	Kiewit/Washington Group
232	**Palm Beach-Ft. Laud. Rail, FL**	Tri-County Commuter Rail Auth	DB	8/01	Herzog/Granite/Washington Group
232	**US 52 Reconstruction, MN**	Minnesota DOT	DB	2/03	Fluor/Edward Kraemer/Ames
226	**Carolina Bays Pkwy, SC**	SC DOT	DB	11/99	Flatiron/Tidewater
323	**E-470 Seg. 1, CO**	E-470 Public Hway Auth.	DB	7/89	Fluor/Morrison Knudsen
238	**I-15 Bridge Replacements, UT**	Utah DOT	DB	1/06	Granite/Ralph L. Wadsworth Const.
220	**Blue Line Extension, DC**	WMATA	DB	4/02	Lane/Granite/Slattery Skanska
211	**I-95 Widening**	Florida DOT	DBF	12/07	Community Ashpalt
200	**Kicking Horse Canyon, BC**	BC Min. of Trans.	DBFO	2005	Bilfinger ($114m Flatiron/Parsons)
198	**Rt. 28 Corridor, VA**	VDOT	DB	9/02	Clark Const./Shirley Contracting Corp.
192	**US 17 Washington Bypass, NC**	NC DOT	DB	2/06	Flatiron/United Contractors
191	**Southern Connector, SC**	Connector 2000 Assn.	DB/F	2/98	Interwest ($na Thrift Bros.)
191	**Atl. City-Brigantine Tunnel, NJ**	NJ DOT	DB/F	10/97	Mirage Resorts ($191m Yonkers/Granite)
184	**U.S. 60 Upgrade, AZ**	Arizona DOT	DB	5/01	Granite/Sundt
180	**Northwest Parkway, CO**	NWP Public Highway Auth.	DB	6/01	Washington Group/Kiewit Western
178	**US 183, Austin, TX**	Central Tex. Mobility Auth.	DB	12/04	Granite/J.D. Abrams + URS
177	**Palmetto Exp. Widening FL**	Florida DOT	DBF	8/08	Condotte-De Moya j.v.
171	**Reno ReTRAC, NV**	City of Reno	DB	7/02	Granite/Parsons Trans. Group
148	**US Route 1, Key West, FL**	Florida DOT	DB	11/04	Granite w/Jacobs
136	**I-494 Reconstruction, MN**	Minnesota DOT	DB	8/04	Granite/C.S. McCrossan
132	**U.S. 64 Knightdale Bypass, NC**	North Carolina DOT	DB	6/02	Flatiron/Lane Const. Corp.
130	**CPTC 91 Express Lanes, ,CA**	CalTrans	DBFO	7/93	Level 3/Cofiroute/Granite (sold 1/03)
130	**U.S. 20, OR**	Oregon DOT	DB	7/05	Granite/TY Lin International
129	**U.S. 70, NM**	New Mex. SH&TD	DB	7/02	Granite/Sundt/James Hamilton+URS
125	**Portland Airport Max Rail, OR**	Tri Met	DB	10/98	Bechtel
121	**95 Express Lanes, FL**	Florida DOT	DBF	1/08	FCC/MCM
120	**Okanagan Bridge, BC**	BC Dept. of Transport	DBFO	5/07	SNC Lavalin
111	**US-1 Improvements, FL**	Florida DOT	DBF	11/07	Community Asphalt
102	**I-4 Over St. John's River, FL**	Florida DOT	DB	1/01	Granite/PCL Civil Constructors
86	**I-17 Thomas to Peoria, AZ**	Arizona DOT	DB	1/99	Granite/Sundt
85	**Camino Colombia Bypass, TX**	Texas DOT	DBFO	6/99	Granite + Carter & Burgess
83	**Highway 104 Cobequid Pass**	Nova Scotia MOT	DBOM	5/96	CHIC: Aecom/AMEC/Dufferin
82	**Hathaway Bridge, FL**	Florida DOT	DB/Warranty	6/00	Granite
81	**Sawgrass Expwy Widen, FL**	Fla. Turnpike Enterprise	DB	4/05	APAC/Parsons Trans. Group
57	**Anton Anderson Tunnel, AK**	Alaska DOT	DB	9/98	Kiewit + Hatch Mott MacDonald
56	**Belt Parkway, NY**	NYC DOT	DB	7/02	Granite Halmar + Gannett Fleming
54	**Carolina Bays, ph. 2, SC**	South Carolina DOT	DB	5/03	APAC + Wilbur Smith Assoc.
53	**New River Bridge, FL**	Tri-County Commuter Rail	DB	2/03	Washington Group

■ Victoria B.C. Wastewater P3 Hurdle

A staff report outlining procurement alternatives for a Cdn$965 -million Victoria, British Columbia, wastewater project raises the possibility of a public vote on the project, if the region opts for a P3. The report said a DBFO may require voter approval if the contract extends beyond five years.

It is the only option among the seven analyzed that might require public approval, the report to the Capital Regional District (CRD) said. Victoria, which is BC's capital, is the largest city in the CRD.

At least three other potential P3 water projects—in Vancouver and Whistler, BC, and Halifax, Nova Scotia—have been rejected after citizens campaigned against private involvement in water infrastructure. The possibility that the Victoria project could be a P3 has already led the Canadian Union of Public Employees (CUPE) to denounce the idea. CUPE is a leading campaigner against P3s.

The January staff report considered seven detailed procurement options, loosely grouped as traditional, hybrid, and P3. It presented the pros and cons of each option ahead of public meetings set for early February. The CRD committee that is managing the project could vote Feb. 24.

The CRD wants Cdn$306 million from B.C., so it automatically would have to go through the provincial assessment to determine whether it could be done as a P3. It is also seeking federal money, and the federal government also has a P3 screen.

The CRD took years to choose among the plant site and technology options, picking a four-treatment plant and biosolids plan that would cost Cdn$965 million to build and Cdn$20 million a year to operate. Victoria has no treatment today, dumping raw sewage into the Juan de Fuca Strait, which separates Canada and the United States. In 2006 the provincial government ordered the CRD to treat its sewage.

■ BC Wide Equity/Combo Financing

British Columbia has signed a second P3 project, the BC Cancer Agency Centre for the North, using its "wide equity" model (PWF, 6/09, p. 31; 7-8/09, p. 22). Two other deals are moving ahead using what BC calls "combo financing," a second financial bridging structure to get over the market turmoil.

Wide equity requires the winning proponent to put up more equity than normal, but the government then becomes the lender, taking advantage of the province's lower-than-commercial borrowing rate.

In combo financing, BC will make higher-than-usual milestone payments while the project is being built, reducing the amount of debt and equity the proponent must raise.

Wide Equity

Partnerships British Columbia (PBC) first used the wide-equity model last summer on the Fort St. John Hospital and Residential Care project. The deal could not have been done at commercial lending rates and still remain within the government's affordability cap.

In its value-for-money assessment of that Cdn$297.9 million deal, PBC said that under wide equity the government essentially takes the place of commercial lenders. Where senior lenders typically do due diligence on the contractor, the government takes that role in a wide-equity deal. Northern Health, the health authority that will run the Fort St. John hospital, has lawyers, a technical advisor, and PBC to do the due diligence.

Some equity payments to winning bidder ISL Health (headed by Acciona and Innisfree) will be held back until the last two years of the agreement to ensure the contractors fulfill their obligations. "This arrangement is similar to that required in PPP transactions involving senior lenders," the assessment said. Despite the changed structure, wide equity delivered cost savings and shifted "a significant level" of risk to the private partner, "but not to the same extent as a traditional PPP structure with senior lenders."

While Northern Health will make Cdn$121.5 million construction milestone payments, they rank ahead of the equity "and therefore have a significantly reduced risk exposure."

The deal saved Cdn$20.7 million in net present value, the difference between the net present cost of Cdn$327.1 million for a traditional procurement, and the ISL cost of Cdn$306.4 million.

The second wide-equity deal, the B.C. Cancer Agency Centre for the North, was won in October by Plenary Health, headed by the Australian-Canadian P3 developer Plenary Group. PCL Constructors, CEI Architecture and Johnson Controls round out the consortium.

This month Plenary Health signed the BC Cancer Agency Centre for the North within the government's financial limit of Cdn$72 million, the net present cost for the 30-year DBFM project. The exact price will be made public when the value for money report is released, but the capital cost is Cdn$69.9 million in nominal dollars.

Plenary Health will put up about 20% equity for the capital cost of the cancer center and a parkade in the northern city of Prince George. The province will fund monthly payments during construction and then an annual service payment to cover capital, operating and major repair costs.

Combo Financing

The 40-km, four-lane South Fraser Perimeter Road and the Surrey Memorial Hospital are going ahead as combo projects, Partnerships BC said. South Fraser, with three shortlisted bidders (Iridium/Zachry, Babcock & Brown/Bilfinger Berger, and Cintra/SNC-Lavalin) should be awarded this spring.

In December, three teams were shortlisted for Surrey Hospital (BC Healthcare Solutions, ISL Health, and Integrated Team Solutions). An award is set to be made later this year.

■ P3 Tested For Edmonton LRT Expansion

The city of Edmonton, Alberta is looking into a massive light-rail transit (LRT) expansion, including two large projects that could be P3s.

A staff report to city council in January suggested that two new LRT lines, costing up to Cdn$2.4 billion, could be built as P3s. Depending on the route, the lines could extend up to 30 km.

The report said the city administration is working on a P3 policy that it hoped to complete by the spring. The policy would cover governance, business case development, screening criteria and decision making.

Staff also recommended extending the existing LRT lines in the city, but said P3s were not practical for those jobs because the projects would be additions to currently operating lines that were not P3s.

■ Plenary Wins Winnipeg's Bridges

Winnipeg has picked Plenary Roads as the preferred proponent to replace the Disraeli Bridges, two spans carrying a main street across a major rail line and the Red River. The original plan contemplated the restoration of the existing 50-year-old structures, which carry the Disraeli Freeway on four lanes for 707 meters, but Plenary is planning new bridges, including a new pedestrian and cycling bridge on the piers of the old bridge. The city was pleased that the Plenary plan does not require shutting the existing bridges during high traffic periods.

The city has budgeted Cdn$195 million for the 30-year DBFM project, up from an estimated Cdn$125 million to Cdn$160 million budget 18 months ago. The increase partly results from Cdn$75 million the city borrowed to make a substantial completion payment.

Winnipeg originally hoped the winning proponent would finance the bridge, but tight and costly credit ended that plan. In 2008, city staff calculated the P3 cost saving would be 16%, assuming proponent financing. Last year, credit markets cut that figure to 8%, CAO/CFO Michael Ruta reported. But with the city borrowing to make the completion payment, the savings would rebound to the original range.

Winnipeg has budgeted Cdn$19.8 million a year for 10 years and Cdn $14.8 million for the 20 years after that to make availability payments to Plenary, repay the city loan, and cover the city's administrative costs. Construction is expected to start in 2011 after financial close, detailed design work and environmental approvals.

Plenary Roads includes Plenary Group, which will provide the equity, PCL Constructors, Wardrop Engineering, Stantec Consulting and Borland Construction, a Winnipeg company that will work on operations and maintenance.

■ Waterloo Courthouse Well Backed

The Waterloo Regional Courthouse P3 deal in Ontario is being backed by a blue-ribbon group of Canadian banks and insurance companies. Sun Life Assurance and Great West Life Assurance are underwriting bonds, while bankers include the Bank of Montreal, the Canadian Imperial Bank of Commerce, National Bank of Canada and Laurentian Bank of Canada.

Three of the banks rank in the “Big Six” in Canada, while Laurentian is number seven. Sun Life and Great West Life are leading insurers.

No price has been released for the 38-room building but, based on previous courthouse P3s, it could easily top Cdn$300 million.

Infrastructure Ontario declared Integrated Team Solutions (ITS) the preferred proponent for the DBFM project in December. ITS includes Toronto infrastructure asset manager Fengate Capital, with the LPF Infrastructure Fund it manages; builder and investor EllisDon; designers and managers Norr Limited/Aecom Services; and maintenance company SNC Lavalin Profac. CIT Group Securities arranged the debt and acted as financial advisor to ITS.

The courthouse will be built in Kitchener, about an hour west of Toronto. Commercial close is expected in February.

■ Quebec P3 Hospitals To Be Rebid

Two of Quebec’s struggling P3 hospital projects have been sent back to the proponents to get the costs down.

In mid-January, the government asked proponents for the research center for the University of Montreal hospital (Centre hospitalier de

l’Universite de Montreal, or CRCHUM) and the McGill University Health Center (MUHC) to resubmit their proposals.

The bids were above the government’s envelope of Cdn$1.13 billion for the McGill project and Cdn$320.8 million for the research center. (The research center is a separate contract from the Cdn$1.55-billion P3 to build a new CHUM hospital.)

The bidders have until mid-March to resubmit their financial proposals. The technical proposals were acceptable, the government said. “We expect both projects to get off the ground this spring,” said Hugo Delaney, spokesman for the provincial P3 agency.

The CRCHUM bidders are Acces Recherche Sante CHUM, with Fiera-Axium Infrastructure and Meridiam Infrastructure Finance, and AXOR-Dalkia.

The McGill bidders are Groupe immobilier santé McGill, headed by SNC-Lavalin, and Partenariat CUSM, headed by Spanish construction and concession company OHL.

The too-high bids were just the most recent problem with the projects (PWF 12/09, p. 28). Late last year, the government changed the original plan to spread all the cost over 30 years of payments, instead offering to pay 45% of design and construction costs at substantial completion, with 55% spread over 30 years.

This January announcement about the too-high bids led to speculation that the government would again have to change the financing arrangements for the projects.

KPMG is a global leader – and Canada's largest professional advisory firm, providing services to international public and private sector clients on matters of privatization, commercialization, public–private partnerships and innovative infrastructure finance. KPMG has provided economic and financial analyses, feasibility studies, demand forecasting, business planning, regulatory and bid tender strategic advice to both public and private sector clients pursuing airport, toll road, water and wastewater, and telecommunications projects in North and South America, Asia, Europe, and the former Soviet Union. Contact **Stephen C. Beatty** at (416) 777-3569, fax (416) 777-3515, or **Will Lipson** at (416) 777-3557, fax (416) 777-3515, Co-Chairs of KPMG's National Privatization Group.

Osler, Hoskin & Harcourt LLP has one of the leading public-private partnership (P3) legal practices in Canada. Osler has extensive experience in all types of PPParrangements including concessions, outsourcing of services, and privatizations of various government agencies, crown corporations and service providers. We have advised on a broad spectrum of P3 projects including major transportation (highways and airports), public transit, casinos, energy, waste, water treatment, power generation facilities and other infrastructure projects. We represent public and private sector participants including developers, contractors, consortiums, service providers, governmental agencies, consultants and financial institutions. Please contact **Bob Beaumont** at (416) 862-5861 (e-mail: rbeaumont@osler.com), **Lorne Carson** at (403) 260-7083 (e-mail: lcarson@osler.com), or **Rocco Sebastiano** at (416) 862-5859 (e-mail: rsebastiano@osler.com)

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As part of SUEZ ENVIRONNEMENT, United Water provides water, wastewater and asset management services to 7.3 million people in 25 states through the dedication of its 2,600 employees. In addition to owning and operating 20 regulated utilities, United Water operates 240 municipal and industrial systems through public-private partnerships and contract agreements. Founded in 1869, the company's core expertise in providing safe, clean drinking water has evolved into providing a full range of services, from technical assistance to total asset ownership. We assist communities improve service, reduce costs, comply with environmental regulations, manage labor relations and provide excellent customer service. For more information visit unitedwater.com or contact **Mark Kropilak** at 201-767-9300 or at BD@UnitedWater.com.

OHL Concesiones, SL is one of the world's leading private developers of transportation infrastructure, being active in all its modes: highways, railways, airports and seaports. The company, founded as a subsidiary of the OHL Group, provides expertise and state of the art technology for developing under concession all types of infrastructure in any part of the world. Currently participating in 21 concessions comprising 2,734 miles in the highway sector, the corporation is also active in urban and suburban train lines, airports and commercial ports and marinas. In contrast to other groups in the sector, OHL Concesiones holds control stakes in practically all of the concessions comprising its portfolio, guarantying the best quality service. For more information please contact: **Ignacio García** (34) 91 348 46 37 garciago@ohlconcesiones.com or **Roberto Hombrados** (34) 91 348 47 58 rhombrados@ohlconcesiones.com; or visit www.ohlconcesiones.com

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Nossaman LLP, a U.S. law firm dedicated to representing government agencies, is widely acknowledged to possess the broadest and deepest practice in the world focused on U.S. transportation infrastructure, specializing in the effective deployment of P3s and other forms of innovative project delivery, finance, operations and maintenance. Recently we helped our clients achieve significant milestones:

- Texas DOT $2.02B North Tarrant Express Managed Lanes Project – Toll Concession – Financial Close, December 2009
- Utah DOT $1.1B I-15 Corridor Expansion – Design-Build Contract – Proposer Selected, December 2009
- Florida DOT $900M Port of Miami Tunnel Project – Availability Payment Contract – Financial Close, - October 2009
- Texas DOT $1.02B DFW Connector – Design-Build Contract – Notice to Proceed, October 2009
- Texas DOT $2.68B LBJ-635 Expansion – Toll Concession – Commercial Close, September 2009
- North Carolina Turnpike Authority $640M Mid-Currituck Bridge Project – Pre-Development Agreement – Executed, April 2009
- Florida DOT $1.8B I-595 Managed Lanes Project – Availability Payment Contract – Financial Close, March 2009

Contact **Geoffrey S. Yarema** at gyarema@nossaman.com / 213.612.7842, **Patrick Harder** at pdharder@nossaman.com / 213.612.7859, or **Simon Santiago** at ssantiago@nossaman.com / 202.887.1472. On the web at www.nossaman.com and www.InfraInsightBlog.com

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IMG CAPITAL LLC

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IMG Capital LLC is an international capital investment and advisory firm specializing in infrastructure assets and related operations of toll roads and bridges, transit, airports, water and wastewater, solid waste, renewable energy and other private and public-use infrastructure such as parking garages and intermodal/multimodal facilities. Over the past decade, IMG and its senior professionals have completed over 200 engagements for more than 100 different public and private clients across 22 U.S. states, the Americas, Europe, Africa and Asia. IMG Capital LLC serves as a strategic partner with infrastructure investors and their stakeholders providing development, financial, and operational management services to drive long-term value creation. IMG has participated in more than $100 billion worth of deals on both the buy-side and sell-side across the infrastructure lifecycle, including planning, feasibility, development, permitting, construction, ramp-up, transfer, maintenance and mature operations. IMG Capital LLC is uniquely positioned to identify investment opportunities, provide bid evaluation, manage assets post-acquisition, and strategically co-invest on select opportunities. For more information, contact **Philip F. Alfieri**, Managing Director, IMG Capital LLC or **John E. Joyner**, President, IMG at (301) 907-2900, fax (301) 907-2906, or at 4733 Bethesda Avenue, Suite 600; Bethesda, MD 20814.

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Contact **Yale Lyman** at (831) 728-7540, fax (831) 728-7578 or at P.O. Box 50085, Watsonville, CA 95077. Our website is www.graniteconstruction.com

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